
FISCAL TOPICS

Fiscal Services Division

November 9, 2017



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Tax Credit: Geothermal Heat Pump Tax Credit

The Geothermal Heat Pump Tax Credit is available for qualified installations on residential property located in Iowa. The State credit is equal to 20.0% of the federal Residential Energy Efficient Property Tax Credit. The federal credit is equal to 30.0% of installation costs; therefore, the Iowa credit is equal to 6.0% of costs, and the combined federal and State credit is equal to 36.0%.

The total amount of tax credits available in a year for a single taxpayer and for all taxpayers combined is not limited. Oversight is a function of Department of Revenue tax return auditing. The tax credit is not refundable or transferable, but unused credits may be carried forward.

Tax Credit Background

- Enabling Legislation: 2012 Iowa Acts, ch. [1121](#) (Tax Credits and Exemptions Act)
- Code Citations: Iowa Code section [422.111](#)
- Administrative State Agency: None
- Sunset Date: There is no sunset date for the Iowa credit, but it is based on a federal credit that has sunset.
- Transferable: No
- Refundable: No
- Carryforward: Unused tax credits may be carried forward for up to 10 years.
- Legislative Tax Expenditure Committee Review Years: Review of this credit is not a duty of the Committee.

Legislative History

The Geothermal Heat Pump Tax Credit has not been modified since its original enactment in 2012. The State tax credit is based on a percentage of the federal tax credit available for geothermal installations. The federal tax credit has sunset and is not available after calendar year 2016. Since the State tax credit is a percentage of the federal credit, the State credit is also not available for installations made after December 31, 2016. The 2016 Legislature enacted a second geothermal tax credit in [HF 2468](#) (Department of Revenue Miscellaneous Changes Act). The new State geothermal credit is not dependent on a federal credit and is equal to 10.0% of qualified geothermal heat pump installation expenditures. The new credit became available beginning calendar year 2017. Should the federal credit be restored, Iowa will have two separate residential geothermal heat pump tax credits. In this case, the taxpayer will be required to choose between the two State tax credits.

Tax Credit Review, Usage, and Future Liability

The Geothermal Heat Pump Tax Credit is not included on the list of tax credits to be reviewed by the Tax Expenditure Committee, so the Department of Revenue has not completed a thorough review of the tax credit usage and benefits. Based on factors used for the fiscal estimate when the tax credit was created, residential geothermal installations would earn an average of \$1,050 in State tax credits. From FY 2013 through FY 2017, an estimated \$9.4 million in tax credits was redeemed. While this translates to about 9,000 residential geothermal installations, the actual number of installations is higher because as a nonrefundable tax credit, a portion of the tax redemptions for existing installations will occur in future tax years.

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/report/Contingent-Liabilities

Department of Revenue Tax Credits Users'

Manual: tax.iowa.gov/sites/files/idr/Tax%20Credits%20Users%20Manual%202017%20%281%29.pdf

Legislative Services Agency Income Tax Guide: www.legis.iowa.gov/docs/publications/LG/711304.pdf

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Geothermal Heat Pump Tax Credit History

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2005	\$ 0	FY 2014	\$ 1,851,468
FY 2006	0	FY 2015	2,192,592
FY 2007	0	FY 2016	1,811,470
FY 2008	0	FY 2017	2,024,134
FY 2009	0	FY 2018 Projected	280,096
FY 2010	0	FY 2019 Projected	96,766
FY 2011	0	FY 2020 Projected	87,778
FY 2012	0	FY 2021 Projected	88,652
FY 2013	1,555,338	FY 2022 Projected	88,652

Geothermal Heat Pump Tax Credit Redemptions

